A Better CT Institute

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To: Connecticut General Assembly Finance, Revenue and Bonding Committee

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Re: Testimony in Support of HB5673

A Better Connecticut Institute (ABCI) submits this testimony as general comments on HB 6659: An Act Concerning the state budget for the biennium ending on June 30, 2025, and making appropriations therefor. ABCI is a nonprofit organization researching and reporting on equitable policy solutions that build healthy communities, high quality education and economic security for all Connecticut residents. ABCI was formed by a coalition of activists, labor, clergy, academics, and thought leaders with one collective goal: eliminating Connecticut's egregious and racist income and wealth disparities. ABCI will be releasing its initial reports this spring.

For decades, Connecticut's economic and social structures have been besieged by an austerity campaign. The wealthiest have overwhelmingly benefited from our state's regressive tax system which has served to drive the state's middle, working and poor classes into higher rates of poverty and uncertainty. This detrimental campaign attacks the fundamental tenets of our democracy: access to the vote; the right to work; and full access and equity under law. We believe in a Connecticut in which no one need suffer at the advancement of industry and that economic growth must include measures ensuring the health and well-being of the workforce building it. We believe true equitable advancements in our state's economy, policies and its population's well-being cannot be achieved without ensuring solutions deliberately addressing institutionalized racism and sexism.

Simply put, the Governor's budget does not go far enough to ensure equitable distribution of our residents' tax dollars. By its presentation, the administration is claiming that the wealthy are doing "enough" by stating this about Connecticut:

> A very progressive income tax structure. In 2020, millionaires made up just 0.7 percent of all tax filers but accounted for over 30 percent of all income tax collections by the state – about $3.6 billion. Connecticut's tax code also incorporates other components that contribute to equity. For instance, Connecticut is the only state in the nation to have a gift tax and one of sixteen that has an estate tax. Our real estate conveyance tax has a separate charge for the sale of "mansions." Our sales tax also incorporates a luxury tax on the sale of certain high value items …

This assertion fails to acknowledge the truth that has already been provided to the Governor and the Connecticut General Assembly (CGA).

The truth by the state's disclosure[i] is that the working class in our state is paying almost thirty percent of their annual income in taxes while the wealthiest earners enjoy a tax incidence of just seven percent. To aid the working class and middle classes with their higher tax burden, the state proposes reducing the income tax percentages of the lower earning deciles and proposes the fifth highest Earned Income Tax Credit in the country. ABCI applauds all efforts by the administration to give more economic power to those with less. However, only providing

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families with $350 – $600/year in relief highlights that too many in Hartford are far too removed from the working class that they do not understand how little a few hundred dollars can stretch in today's Connecticut. Experts confirm that a true living wage in Connecticut for an individual raising child is approximately $45/dollars per hour.[ii] This extra cash doesn't come near that benchmark. To truly aid families, Connecticut should make the wealthy pay what they owe. For this reason and others stated below, ABCI and others in the Recovery for All coalition are asking the state to impose a 5% surtax on capital gains, dividends, and taxable interest for individuals earning $500,000 and joint filers earning $1 million or more, with has an anticipated revenue of $650-$800 million/year. Further we are asking that the CGA establish new income tax brackets and rates for incomes over $1 million, $10 million, and $25 million.

In addition to more cash on hand, working families need deep investments in public goods and services as to not incur thousands of dollars in debt trying to provide necessities, house, and care for their families. For the past several years, Connecticut has jockeyed to be the wealthiest state in the nation, a badge of honor many in Hartford hold with pride. So then, why settle for fifth? Given Connecticut's wealth and the commitment the state made last year under Section 92, requiring all budgets address the state's historic inequities, we should be leading the charge and matching or surpassing the fearless leadership of states like Maryland whose EITC is 50%.

The administration also fails to mention that the state's property tax is incredibly regressive with those owning homes well below mansion standards paying most of the property taxes in the state.[iii] Residents of cities struggling to provide public services are paying higher mill rates than zip codes with the highest housing prices.[iv] These are some of the reasons why ABCI and the Recovery for All coalition is asking the CGA to double the tax credit to $600/yr and make it refundable for seniors in our state. It is also why we also seek for the state raise mill rates on homes and commercial properties valued over 1.5 million dollars, an estimated revenue of $150 million dollars.

Despite a Supreme Court decision to allow Department of Revenue Services (DRS) auditors to seek taxes from digital retailers that sell goods to residents in Connecticut, it has failed to organize an effort to achieve this goal.[v] Estimates of $30 million dollars in revenue could have been collected. Many of our public goods and services could use these funds. For example, it could pay for two years of expanding HUSKY to all individuals under the twenty-six years of age regardless of immigrations status (HB 6616). Further, the state admitted last year capturing lost revenue is a challenge even acknowledging the many corporations pay zero dollars in taxes to the state. However, the state testified this session that it has no intention of engaging in a tax gap study to determine the depth of this problem and/or to develop plans to reclaim the moneys owed our state to benefit it residents. These examples are why ABCI and others in the Recovery for All CT coalition are asking the CGA to pass legislation requiring DRS to higher more auditors to fight corporate and individual tax evasion. While this may cost approximately 4 million dollars, it will raise approximately 100 million dollars in revenue.

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DRS claims that if Connecticut increased the tax percentages of the highest earners in the state that residents will flee to states with no to little income tax – this false phenomenon is known as the millionaire tax migration myth.[vi] This myth has allowed our egregious, racist regressive tax system to remain in place. In addition to overwhelming existing research, ABCI will be debuting new research in the coming weeks that dispels this harmful assumption, which is often driven by policy briefings paid for by extremely wealthy entities. The truth is millionaires are imbedded elites who are more likely to remain in highly concentrated, high-income areas to maintain their earning potential and lifestyle.[vii]

Additionally, policy makers will point to raising taxes as a reason why we lose industry in Connecticut. LEGO's recent move should dispel that for all. As the company stated when it chose to leave Connecticut for Massachusetts:

> "Boston is ranked one of the best cities in the world to attract and retain talent," Skip Kodak, president of the Lego Group in the Americas, said in a statement. "This, along with its world-class academic institutions, skilled workforce and great quality of life makes it an ideal location for our U.S. head office. We have exciting plans for the next phase of growth and hope we can retain many of our current team, as well as attract new colleagues.[viii]"

This decision to relocate comes after Massachusetts raised its state income tax on its highest earners. The motivation to move was to benefit their employees and to build better business with excellent academic partners. Connecticut needs to take this example to heart. It is needs to raise revenue to invest in healthier public goods and services to enrich communities and attract new industry and residents. In short, more revenue would build a better, more equitable Connecticut.

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[i] https://portal.ct.gov/-/media/DRS/Tax-Incidence/Connecticut-Tax-Incidence-Study-TY2019.pdf
[ii] https://livingwage.mit.edu/counties/09003
[iii] [iii] https://portal.ct.gov/-/media/DRS/Tax-Incidence/Connecticut-Tax-Incidence-Study-TY2019.pdf
[iv] https://portal.ct.gov/-/media/OPM/IGPP-Data-Grants-Mgmt/FY-22-23-ADM_MillRates-882022.pdf
[v] https://ctmirror.org/2022/07/15/ct-online-sales-tax-plan-to-collect-auditors-revenue/
[vi] The Myth of the Millionaire Tax Flight: How Place Still Matters for the Rich. Cristobal Young. Stamford University Press. 2017.
[vii] Id.
[viii] https://www.ctpublic.org/news/2023-01-24/lego-to-move-north-american-headquarters-out-of-connecticut